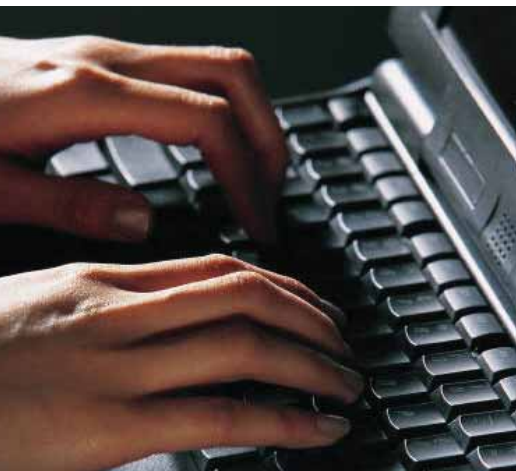




Office of the Auditor General
Western Australia

Audit Practice Statement





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Mission

Serving the public interest by providing Parliament with independent and impartial information regarding public sector accountability and performance.

Introduction

Practice Statements are issued in accordance with section 24 of the *Auditor General Act 2006* (AG Act). This section of the Act requires the Auditor General to inform Parliament of any major change in the extent or character of the audit function.

This Statement replaces the November 2003 Audit Practice Statement issued under the *Financial Administration and Audit Act 1985*. This was the previous legislation governing the functions of the Auditor General, before the introduction of the AG Act.

This Statement offers an updated, concise, and consolidated Plain English summary of:

- why we audit
- what we audit
- how we audit.

More information on our audit practice is available on the Office of the Auditor General's (OAG) website at <http://www.audit.wa.gov.au/>

Why We Audit?

In the Westminster system of government, all authority for government activity ultimately stems from Parliament. Public sector agencies are therefore accountable to Parliament for their use of public resources and the powers conferred on them by Parliament.

To assist it to oversee the public sector, Parliament seeks independent assurance that agencies are operating, and accounting for their performance, in accordance with Parliament's purpose. It is the Auditor General's role to provide this assurance.

Specifically the Auditor General:

- audits and provides an opinion on each public sector agency's annual financial statements and performance indicators
- provides an opinion on the adequacy of controls in satisfying legislative provisions
- conducts compliance and performance examinations
- reports to Parliament any significant matters.

Independent and forthright reports tabled in Parliament by the Auditor General assist parliamentarians and the public to have a better understanding of the performance of public sector agencies. These reports, together with advice provided to agencies, assist agency management to improve governance and control environments and the cost effectiveness and responsiveness of their services.

Adverse comments, recommendations, or audit qualifications by the Auditor General alert Parliament and the public to matters of concern. Positive reports and opinions add credibility to an agency's assertions of good performance, increasing Parliament and community confidence.

The Auditor General is an independent officer of Parliament and is not subject to direction from anyone as to what particular matters to audit, the way an audit should be conducted or what should be included in any report on an audit. However, requests to undertake an audit can be made by either House of Parliament, the Treasurer or through Parliamentary Committees.

What We Audit?

In 2005-06 the Auditor General audited a Western Australian public sector of over 100 000 employees, with a combined revenue and expenditure in excess of \$42 billion.

Organisations and accounts audited by the Auditor General include:

- State Government Departments
- Statutory Authorities
- State-Owned Corporations
- Entities controlled by public sector agencies
- Entities performing functions on behalf of public sector agencies
- Public Ledger – the Consolidated Account, Treasurer’s Advance Account and Treasurer’s special purpose accounts
- Annual Report on State Finances.

For a comprehensive list of audited agencies refer to our current Annual Report.

Types of audits

The Auditor General undertakes two types of audits.

Assurance Audits: these audit the ‘assertions’ made by public sector agencies about their financial and non-financial performance, and provide assurance that these are ‘true and fair’. These audits are undertaken in order to provide an opinion on each agency’s annual financial statements and performance indicators and on the adequacy of controls in satisfying legislative provisions.

Compliance and Performance Examinations: these investigations of agencies may include whether desired outcomes are being delivered, efficiency and effectiveness of operations, compliance with legislation and policy or any other matter relating to the use of public resources.

How we audit?

General principles

OAG adheres to the following principles:

- all audits are conducted in accordance with accounting and auditing standards and international best practice
- the highest standards of ethical and personal behaviour are demonstrated

- all audits are approached in a fair and constructive way
- audits are conducted, and reported in an impartial manner
- matters of significance arising from audits are reported to Parliament.

Common elements

Audit Evidence

Credible evidence is gathered to enable conclusions and recommendations to be made.

Audit staff gather information and evidence from a range of sources including agency records, data analysis, interviews with relevant staff members and surveys or client questionnaires. Audit work may also include discussions with special interest groups, gathering and analysing information and special studies.

Access to Information

Under the AG Act, audit staff have unrestricted access to information held by agencies, irrespective of any restrictions on disclosure imposed by other legislation such as secrecy and commercial in confidence provisions.

Confidentiality of audit files and working papers is ensured through strict provisions of the AG Act and exemption from key sections of the *Freedom of Information Act 1992*.

Communication

Effective communication with agencies is a vital part of the audit process.

Entry interviews are held to clarify the audit scope and to agree on communication protocols.

Significant findings and emerging issues that arise during the audit are progressively discussed with an agency’s CEO and/or nominated contact officer to ensure that they are kept fully informed.

Reporting

Under section 24 of the AG Act the Auditor General is required to report to Parliament at least once a year on the results of audits that in his or her opinion are of such significance as to require reporting. These reports may include matters of significance arising from assurance audits and compliance and performance examinations. In addition, the Auditor General may submit a report to Parliament on any compliance or performance examination.

Acting on recommendations of the Auditor General

The Auditor General has no authority to enforce the adoption of recommendations arising from an audit. While audit can be a catalyst for positive change, the Auditor General cannot, and should not, be seen as the implementer of such change. This remains the responsibility of agency management, Executive Government and ultimately Parliament.

From time to time, Committees of Parliament review the reports of the Auditor General and may require agencies to advise on action taken in respect of matters raised in reports.

Limitations

There are limitations to any external audit. Audits are not an absolute guarantee of the truth or reliability of agency information or the effectiveness of internal controls. They may not identify all matters of significance. This is because external audit techniques involve:

- professional judgement
- use of sample testing
- assessment of the effectiveness of internal control structures
- assessment of risk.

Primary responsibility for the detection, investigation and prevention of irregularities rests with agencies. Consequently it is an agency's management who remains responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing and presenting the financial statements and performance indicators, complying with the *Financial Management Act 2006* and other relevant legislation.

Assurance Audits

The Office undertakes two types of assurance audits: audits of financial statements, and audits of performance indicators. Together the audits provide independent assurance to Parliament and the public regarding the reliability of the financial statements and key performance indicators included in an agency's Annual Report.

Financial Audits

Financial audits focus on public sector agencies' annual financial statements. They provide assurance to Parliament that the information provided is based on proper accounts, and is presented fairly in accordance with applicable Accounting Standards and other mandatory

professional reporting requirements, including the Treasurer's Instructions. The Auditor General's opinion will also state whether the controls exercised by the agency provide reasonable assurance that the receipt, expenditure, and investment of money, the acquisition and disposal of property and the incurring of liabilities have been in accordance with relevant legislation.

Performance Indicator Audits

Performance indicators enable performance to be measured, monitored, evaluated, reported and improved. Treasurer's Instruction 904 mandates the reporting of agency performance indicators in annual reports. The Auditor General's audit of performance indicators differs from financial audits in that the audit opinion not only addresses whether the indicators fairly represent indicated performance for the period but also provides an assessment of whether or not the indicators are relevant and appropriate having regard to their purpose.

Assurance Audit Resources










Assurance Services Division (ASD) staff of the OAG undertake both the Financial, and Performance Indicator audits. OAG is committed to maintaining a strong internal audit workforce to sustain a level of public sector expertise in the market that can be accessed to cope with peaks in workload. Private sector contractors appointed under the AG Act are used for specialist assistance and to assist the Division to meet reporting timelines. At least 20 per cent of audits are contracted in this way and all are conducted in accordance with professional auditing standards. The Auditor General reviews all audit work before issuing the audit opinion.

Fees are charged for the majority of assurance audit work undertaken on public sector agencies.

Methodology

Assurance audits are conducted in accordance with professional auditing standards using an audit methodology adapted to our public sector environment. A dynamic suite of tools and techniques is used, enabling each audit program to be individually tailored for each agency's risk profile.

The Assurance Audit Process

Pre-engagement Activities 	<ul style="list-style-type: none"> Assess and respond to engagement risk, select the team and establish terms of engagement and agency service requirements.
Preliminary Planning 	<ul style="list-style-type: none"> Understand the agency's business, control environment and accounting process. Perform preliminary analytical procedures and determine planning materiality.
Develop Audit Plan 	<ul style="list-style-type: none"> Assess risk and potential error level for each line item disclosure in the agency's financial statements including: <ul style="list-style-type: none"> specific risk identification reliance on control activities level of substantive testing. Discuss audit strategy and plan, timetable and estimated cost with agency's audit committee / management at entrance interview.
Perform Audit Plan 	<ul style="list-style-type: none"> Perform tests of controls and substantive tests and evaluate results. Perform information systems reviews and evaluate results. Perform financial statement and performance indicator audits.
Conclude and Report 	<ul style="list-style-type: none"> Perform subsequent events review, obtain management representations and prepare audit summary memorandum. Form audit opinion and report findings to agency in final management letter and at audit exit interview with agency's audit committee / management. Provide audit opinion for inclusion in agency's annual report, for tabling in Parliament by the Minister within 90 days of agency's end of financial year. Advise Minister of any significant issues discussed at exit interview.
Draft Summary of Results 	<ul style="list-style-type: none"> Prepare summary report on the results of all audit opinions issued and issues identified during these audits for each audit cycle
Procedural Fairness Review 	<ul style="list-style-type: none"> Agencies named in summary report presented with text for confirmation of facts and context
Report to Parliament 	<ul style="list-style-type: none"> Table Audit Results Report in Parliament – summary of the results of all audit opinions issued for each audit cycle. Provide briefing for Members of Parliament after tabling.
Post-Engagement Activities 	<ul style="list-style-type: none"> Assess audit engagement quality. Periodic external peer review of audit activities.

Compliance and Performance Examinations

The Office undertakes two types of performance examinations – Compliance and Performance. They provide independent assurance to Parliament and the community that funds appropriated for particular activities are spent efficiently and effectively and in line with Parliament’s expectations. The examinations are undertaken in accordance with section 18 of the AG Act.

Compliance and performance examinations reinforce the accountability of Ministers and public sector managers for their performance, as well as recognising and advising Parliament of management initiatives and achievements.

Compliance Examinations

Compliance examinations provide assessment of the internal controls and legislative compliance of an agency. They generally involve assessing:

- the adequacy of internal controls and the functionality of computerised information systems including business continuity and management of risks
- compliance with legislation, public sector policies, an agency’s own internal policies and accepted good practice
- instances of inefficiency, waste or extravagance.

Performance Examinations

Performance examinations evaluate whether an agency is effectively meeting its objectives and using its resources economically and efficiently to deliver desired outcomes. Examinations can cover all or part of the activities of an agency or agencies. The examinations seek to improve resource management and add value to an agency through recommendations on improving operations and procedures.

Resourcing Compliance and Performance Examinations

Two separate divisions of the OAG undertake these compliance and performance examinations: Compliance and Information Systems Division and the Performance Review Division. The examinations are principally conducted by internal staff, although specialist assistance is obtained when required.

Methodology

All reviews are conducted using our own methodology which complies with the AG Act.

Following up Examinations

The need for a follow-up examination is usually considered two to three years after a report is tabled. The decision to undertake a follow-up examination will take into account any agency responses provided to Parliamentary Committee inquiries. Any follow-up examination aims to provide Parliament with an assessment of changes that have occurred as a result of the initial examination.

Follow-up examinations are not undertaken when circumstances have changed significantly since the original report or where reports from Parliamentary Committees or other sources have already provided an adequate assessment of agency progress.

The Examination Process

Topic Identification 	<ul style="list-style-type: none"> • Year-round environmental scans identify potential topics. • Approved topics periodically prioritised.
Notification of Audit / Review 	<ul style="list-style-type: none"> • Agency CEOs notified of research topic and communication protocols established.
Planning Phase 	<ul style="list-style-type: none"> • Research the topic to determine scope and approach and usefulness of proceeding with investigation.
Undertake Fieldwork 	<ul style="list-style-type: none"> • Conduct work program and keep agency/agencies informed to preliminary findings.
Collate and Analyse 	<ul style="list-style-type: none"> • At end of fieldwork, review findings, assess significance and determine recommendations. • Discuss with CEO or senior management in each agency reviewed.
Draft Summary of Findings 	<ul style="list-style-type: none"> • Prepare summary of findings.
Procedural Fairness Review 	<ul style="list-style-type: none"> • Findings presented to agency/agencies for confirmation of facts and context. • Response from agency/agencies included in report text or printed separately as appendix to report.
Report to Parliament	<ul style="list-style-type: none"> • Table report in Parliament and provide briefing for Members of Parliament after tabling.

Opinions on Ministerial Notifications

Introduction

From 1 February 2007, two new Acts, the Auditor General Act 2006 (WA) (AG Act) and the Financial Management Act 2006 (WA) (FM Act) became operative. The FM Act requires Parliament and the Auditor General to be given written notice where a Minister decides that it is reasonable and appropriate not to provide requested information to Parliament. Further, section 24(2)(c) of the AG Act requires the Auditor General to form an opinion on the reasonableness and appropriateness of a Minister's decision not to provide information to Parliament. This opinion is to be reported to Parliament.

A Minister may decide not to provide certain information concerning any conduct or operation of an agency to Parliament. Usually this is part of a response to a Parliamentary Question. The Minister must give written notice of this decision to the Auditor General and notice with reasons to Parliament under section 82 of the FM Act.

When are section 82 notices not required?

A Minister is not required to provide a notice under section 82 of the FM Act where:

- the Minister has advised that information will be provided at a later date
- an answer has been provided in a previous question
- the information is already publicly available
- the information does not concern any conduct or operation of the agency relevant to the FM Act and/or
- the Minister refers a question to another Minister, with responsibility for the agency in question, for a response.

Where the Auditor General has received notices that fall into the above categories, the Auditor General may form the view that the Minister did not actually make a decision "not to provide information to Parliament concerning any conduct or operation of an agency." As such, the notice provided pursuant to section 82 of the FM Act is unnecessary and no report to Parliament is required pursuant to section 24(2)(c) of the AG Act.

Methodology

All notices received under section 82 of the FM Act will be examined as to the Minister's reason for not providing the information to Parliament in order to form the opinion and report required by section 24(2)(c) of the AG Act and report this to Parliament.

All audits are conducted using our own methodology which complies with the AG Act.

Approach

The approach will include, but not be restricted to, review of relevant documentation such as coverage in Hansard, and any other relevant documents provided to the Auditor General.

The steps in this process are:

1. Determine whether the notice was required by section 82 of the FM Act. If the notice is not required, then no further action will occur.
2. If the notice was required, a preliminary review of the information in the notices, including the Minister's explanation for the decision, will occur to determine whether the matter is commercially confidential or significant in nature based on the definition below.
3. During the preliminary review stage:
 - (a) If it is determined that the information was neither commercially confidential nor significant in nature and
 - (b) If the Minister's reason for not providing information was it requires diversion of resources or a similar reason, thenthe Minister's decision not to provide information will, in the opinion of the Auditor General, be deemed reasonable and therefore appropriate unless in all the circumstances it was manifestly unreasonable. This is based on Ministers having a duty to ensure that the resources of their agencies are used efficiently and effectively.
4. Notwithstanding circumstances in 3(a) and (b), if the Auditor General decides that for any reason, a further supplementary review should be undertaken, such a review will occur.

5. If, after the preliminary review, the information is categorised as commercially confidential or significant in nature, then a further supplementary review will be undertaken.
6. Based on the further supplementary review, an opinion will be provided that the Minister's decision is reasonable and therefore appropriate. Alternatively, an opinion will be provided that the Minister's decision is not reasonable and therefore inappropriate.

Definition of Commercially Confidential

The legislation does not provide any interpretation of "commercially confidential". For the purposes of this Practice Statement, factors that may be considered include:

- whether the information sought falls into the public or private sector or somewhere in-between
- the timing of the information sought
- the costs and benefits of releasing the information and/or
- balance of public and private interests.

Definition of Significant in Nature

Information may be significant in nature if:

- the request contained in the notices raises potential significant issues of probity, performance, or waste, or any other audit-related risk and/or
- issues to be investigated are in line with the functions of the Auditor General under the AG Act

Reporting

Under section 24 of the AG Act, the Auditor General is required to report to Parliament at least once a year on the results of audits that in his or her opinion are of such significance as to require reporting. When determining whether the opinion should be the subject of a separate report to Parliament, the Auditor General will take into account the same factors as would be taken into account with regard to any other report pursuant to section 24 of the AG Act. Relevant factors may include "public interest" in the subject matter and urgency.

A summary of the opinions on Ministerial Notifications received will be included in an Audit Results Report to Parliament under section 24 of the AG Act at least annually.

Further Advice

Following the issuing of an opinion based on available information that deems the matter not to be significant, the Auditor General remains open to receive further information suggesting that the matter may be significant, and to consider whether that further information warrants a revised opinion.

Further Information

For more information on how we go about conducting our audits, including additional explanation on some of the items included in this Practice Statement, please refer to <http://www.audit.wa.gov.au>.

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